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SUBJECT: PANAMA: KEY AGRICULTURAL ISSUES FOR THE UPCOMING
U.S.-PANAMA FTA NEGOTIATIONS, APRIL 26-30, PANAMA CITY

1. This message is sensitive but unclassified. Please treat accordingly.

2. Summary: This cable provides an overview of Panama's agricultural sector and Post's assessment of key issues in preparation for the upcoming bilateral negotiations (Round One will be held April 26-30, 2004 in Panama City). Paras 1-4 provide an overview of the sector; paras 5-9 provide a summary of key barriers to increased U.S. market access; paras 10-11 provide a summary of Panama's agricultural incentives; and paras 12-22 provide background and basic trade and production data for sub-sectors (e.g. beef, dairy, rice, etc) identified as sensitive by local agricultural groups. Like elsewhere, Agriculture represents a largely defensive interest for Panama (with the clear exception of improved sugar access under the US-administered TRQ). (Note: While the Ag sector represents only 6 percent of Panama's GDP, it represents 53.3 percent of the rural labor force and 14.6 percent of the total force. End note.) The GOP has reviewed the CAFTA Ag chapter and understands US expectations. End Summary.

3. According to 2003 official statistics from the GOP Comptroller General's office, the ag sectors contribution to Panama's total GDP (approximately USD 12 billion) fell 0.1 percent to USD 557.4 million. Total agricultural imports for 2002 were USD 417 million while agricultural exports were USD 603 million. (Note: Detailed GOP agricultural statistics for 2003 are still pending. End note.) According to USDA statistics, Panama imported a total of USD 191 million from the US in agricultural products in 2003 and exported USD 151 million to the United States. (Note: This figure includes both raw and processed ag products. End note.) This represented a 3.1 percent increase in imports from 2002 and continued a traditional upward trend, interrupted only by greater increases in 1998 and 1999 when El Nino forced Panama to increase food imports from the US. In 2002, 46 percent of Panama's total imports of food products came from the United States and 23 percent of Panama's total food exports went to the US.

4. Following Panama's accession to the WTO in 1997, Panama lowered all duties to 15 percent or less, becoming the most open market in the area. However, at the end of 1999, the incoming Moscoso Administration reversed this and raised duties for sensitive products. Sensitive products include beef, dairy, rice, poultry, pork, corn, tomatoes, potatoes, onions, and cooking oil. In addition to increased duties and Tariff Rate Quotas (TRQs), Panama does not/not recognize the US sanitary meat inspection system and has never accepted fresh or chilled US chicken, citing high phytosanitary risk. Nevertheless, Panama imports frozen turkeys and turkey meat for the meat processing industry. Particularly troublesome has been the lack of transparency by the Ministry of Agricultural Development (MIDA) when deciding whether to issue or deny phytosanitary permits -- in effect, at times, seemingly using this authority to administer a de facto quota system. Like elsewhere, many agricultural groups complain that their U.S. counterparts enjoy an unfair advantage through subsidies/domestic support. To date, three sectors -- beef, dairy, rice -- have expressed a strong desire to be excluded from the agreement. Aside from the above-mentioned sensitive products, market access is generally good for US ag products. The average tariff for non-sensitive ag products is 15 percent.

Key Barriers to Increased US Market Access

15. The GOP has increased protection for sensitive sub-sectors primarily by raising duties and creating Tariff Rate Quotas (TRQs). The GOP has limited its protection for potatoes, onions, cooking oil, beef, and sugar to duty increases. It maintains TRQs for poultry, pork, corn, rice, dairy, and tomato products. (Note: Para 6 contains detailed TRQ data. End note.) TRQs are entirely filled every year for pork, corn, rice, dairy, and tomato products. The yearly quota for poultry products has never been filled because of phytosanitary concerns about US poultry, which have led to delays in the issuance or denial of phytosanitary import permits. This lack of procedural transparency in the issuance of these permits and the lack of recognition of US plant inspection are the two key barriers to increased US market access.

16. TRQ detailed information: (Note: Out-of-quota tariff rates are as of 01/01/04. End note.)

Poultry TRQ: 626 MT
In-quota tariff: 15 percent
Out-of-quota tariff: 273 percent

Pork TRQ: 772 MT
In-quota tariff: 3 percent
Out-of-quota tariff: varies
Hams, picnics, parts: 74 percent
Deboned, other butts with bone: 30 percent

Corn TRQ: 141,450 MT
In-quota tariff: 3 percent
Out-of-quota tariff: Not Available

Rice TRQ: 8,297 MT
In-quota tariff: 15 percent
Out-of-quota tariff: 50 percent

Dairy TRQ: 11,018 MT
In-quota tariff: 3 percent
Out-of-quota tariff: varies
Skim, whole, other milk: 66 percent
Powder milk: 63 percent
Evaporated milk: 159 percent (including goat evaporated milk)

Tomato TRQ: 1,439.5 MT
In-quota tariff: 3 percent
Out-of-quota tariff: varies
Tomato puree: 83 percent
Tomato pulp crude: 83 percent
Remaining: 83 percent
Ketchup: 50 percent
Tomato paste: 50 percent
Remaining: 50 percent

17. Panama's application of standards and certification requirements generally conforms to WTO standards. However, restrictions have been applied from time to time in response to pressure to protect local producers. Particularly of concern has been the lack of procedural transparency by relevant Panamanian authorities when deciding whether to issue or deny phytosanitary import permits. The Ministry of Agricultural Development (MIDA) has, most recently, failed to act upon the issuance of import permits for frozen french fries but has also stalled issuance of imports for onions, corn, and dairy products. The permits were partially issued after the Embassy intervened.

18. Panama also requires certification by Panamanian health and agricultural officials of individual US processing plants as a condition for the import of poultry, pork, and beef products. US exporters have assisted Panamanian officials in making inspection visits to US plants. There have been no instances of a US plant failing to be certified, but inspections have been delayed many times for various reasons, including lack of personnel and budgetary constraints in the responsible Panamanian ministries.

19. In September 2003, Executive Decree No. 352 was signed by President Moscoso requiring Panamanian officials certify international plants as a condition for the import of consumer-ready products. While this decree has not been implemented fully, the Ministry of Health is requiring this certification for sanitary registrations. Sanitary registration certificates allow products to be marketed and sold within Panama and must be renewed every 5 years. This decree does not/not comply with the requirements of Chapter

III of Law 23 of 1997 that requires Panamanian acceptance of free sale certificates from exporting countries. This law was implemented as a result of Panama's WTO accession.

GOP Ag Incentives

10. While total domestic supports to the ag sector are low (less than USD 9 million annually prior to WTO accession), aid consists of preferential tariffs, income tax deductions, and tax deductions. Preferential tariffs (30 percent reduction from the market rate) are given for the installation and consumption of electricity used in farming activities. A 30 percent income tax deduction is allowed for investments in livestock, fisheries, and agro-industrial activities (a maximum deduction of 40 percent of taxable income in the tax period prior to the investment is required). The following tax exemptions are permitted: (1) profits derived from timber plantations planted within the last 7 years, (2) income of less than USD 100,000 per annum derived from ag or livestock production, and (3) property tax on farming estates with a land registry value of less than USD 100,000. A deduction of a percentage of capital invested in farming activities (where farm incomes exceed USD 100,000 annually) is also available; the deduction is limited to the average rate of interest for fixed term deposits plus 3 percent of that average.

11. The GOP has also granted special contracts to certain investors whose activities required the use of large areas of land; the land areas had ordinarily been granted under a concession system. Mineral resources exploration has benefited from such contracts. Agricultural exports of Panama are also exempted from income tax on the income derived from the exported goods, and Tax Credit Certificates (Spanish acronym: CAT or certificado de ahorro tributario) have been granted for non-traditional ag products. CATs are administered by MICI and pay 15 percent of value added to exports of non-traditional ag products. CATs will be eliminated in 2005. Panama recently enacted an Industrial Law that is WTO consistent and will replace CAT-lost income through various incentives and subsidies. Panama also maintains Laws 24 and 25 which provide support money to farmers and are administered by MIDA. Law 24 provides money to farmers that suffer losses due to natural disasters whereas Law 25 provides money to farmers that convert from traditional to non-traditional crops for export.

----- Beef, Dairy, and Rice: "We don't want to be a part of the FTA" -----

12. Panama's leading industry groups for beef, dairy, and rice have publicly spoken against inclusion of their sectors in the FTA. However, while they prefer their industries be excluded from the discussions, they have also begun to lobby the Moscoso Administration to change current laws to ensure a more protected agricultural sector. This lobbying has not yet produced tangible results but the GOP has also not shut the door on their requests. (Note: Panama has FTAs with Taiwan and El Salvador. Only rice was excluded from both agreements whereas beef products are tariff and quota free and some dairy products are tariff free while others have quotas. End note.) A common argument used by these organizations against an FTA is that U.S. subsidies create an uneven playing field.

Sub-sector: Beef

13. Panama's livestock industry is traditionally operated as family-owned with extensive low-tech ranches. These depend primarily upon low quality grassland and rain water. The growth of the industry is small. Between 1991 and 2001, when the agricultural census was taken, cattle production grew only 9.1 percent (less than 1 percent a year). The GOP has set a duty of 27.5 percent for beef and 10 to 15 percent for offal. There is no/no TRQ for beef. The consumption per capita of beef and offal in 2002 was 91.3 pounds. The following statistics refer to 2002.

Overall beef imports: 160 tons for a total value of USD 573,000

Countries of origin: USD 573,000 from US (Note: Panama did

not/not import beef from any other country. End note.)

Overall offal imports: 451 tons for a total value of USD 333,000

Countries of origin:

USD 91,000 from US
USD 186,000 from Canada
USD 46,000 from Nicaragua
USD 10,000 from other countries

Exports: 3,997 tons for a total value of USD 14,607 million

Countries of destination:

USD 5,883 million to Mexico
USD 2,065 million to Guatemala
USD 1,481 million to Venezuela
USD 1,368 million to Taiwan
USD 3,810 million to other countries
(Note: There were no/no beef exports from Panama to the US.
End note.)

14. The National Association of Cattle Raisers (ANAGAN) has solicited the GOP to approve two changes in Panamanian law that would diversify and strengthen the domestic beef industry. ANAGAN has requested a law that would include a meat grading system on par with other leading beef-producing countries; this law has been returned to its drafters for corrections and may go before the Assembly in September 2004. (Note: Reportedly, a motivation for this measure is to keep out Nicaraguan beef. End Note.) The second law proposed by ANAGAN requests that a percentage of profits from the cattle quota go to ANAGAN to strengthen its commercial structure.

Sub-sector: Dairy

15. Panama's dairy farmers produced 150 million liters of raw milk in 2002. Of this, 4 million liters were utilized as ice cream, 47 million liters as evaporated/powdered milk, 56 million liters as pasteurized milk, and 43 million liters as cheese and other dairy products. The following statistics refer to CY 2002.

Overall dairy imports: 9,819 metric tons (MT) with a total value of USD 18.8 million

The most important imported products and country of origin were:

Powder Skim Milk: 1,081 MT (97 percent from New Zealand)
Powder Whole Milk: 2,069 MT (100 percent from New Zealand)
Butter oil: 1,031 MT (93 percent from New Zealand)
Cheddar cheese/industrial: 2,934 MT (99 percent from New Zealand)
Consumer ready cheese: 437 MT (55 percent from the US)

Overall dairy exports: 7,634 MT with a total value of USD 10.9 million

The most important exported products and countries of destination were:

Condensed milk: 4,205 MT (94 percent to Central America)
Evaporated milk: 2,404 MT (83 percent to Central America)

16. The Association of Dairy Producers (APROGALPA) claim that the importation of milk has negatively affected domestic production. The cost of production in Panama and elsewhere in Central America is higher than more developed countries because of the slow transfer of technology. APROGALPA advocates the creation of a national plan developed by the GOP and milk producers to improve quality and efficiency. While the Panamanian dairy industry is competitive in Central America, the industry claims it cannot compete with subsidies provided to US dairy farmers.

Sub-sector: Rice

17. Panama had a total of 51,040 rice farms in 2002; of these, 1,767 were mechanized and 49,273 were non-mechanized.

(Note: Non-mechanized farms include poor farmers and Indians that plant rice for self-consumption. End note.) Mechanized farmers were paid between USD 9.50 and USD 11.00/qq paddy. Consumers paid USD 0.36/lb for a 5-lb bag of white rice 95/5. (Note: "qq paddy" refers to 100 lbs of paddy rice and 95/5 signifies for every 100 grains of rice, 95 grains are perfect and 5 grains may be defective. End Note.) Panama has the highest consumption of rice in the region at 179.7 lbs/year. The following statistics refer to 2002.

Overall rice imports: 30,108 MT (27,432 MT of paddy rice and 2,676 MT of white rice)

Countries of origin: 100 percent from the US

(Note: Panama did not/not export rice in 2002. MIDA constantly monitors stocks, which are traditionally kept at the minimum level of a two-months supply. If stocks fall below this point, MIDA either approves the TRQ product or an "extraordinary" TRQ, if needed. Typically, during and immediately after local harvests, the market is closed to imports. End note.)

18. The Federation of Farmers' organization (UNPAP), the main organization for rice farmers, asserts subsidies of developed countries must be eliminated before their products are discussed within FTA negotiations. Following the abolition of subsidies, UNPAP wants a 60-year protectionist period of declining tariffs on sensitive products. UNPAP presented its proposal to then Vice Minister of Trade Meliton Arrocha in December 2003.

Other Sensitive Ag Sub-sectors

19. Turkey. The following information refers to CY 2002.

Production: -0-

Imports: 3,773 MT with a total value of USD 5,552,136
(Note: Of this, 2,780 MT was turkey meat used by the meat processing industry. End note.)

(Note: Panama exported no/no turkey or turkey products in 2002. End note.)

20. Pork. In 2003, Panama slaughtered 302,641 heads of pork, an increase of approximately 10 percent from 2002. The following figures refer to 2003.

Chilled/Frozen Pork Imports: 2,041 MT with a total value of USD 3,229,421
(Note: Of this, 1.095 MT were shoulder imports. End note.)

Countries of Origin: 1,581 MT from the US
460 MT from Canada

Pork Offal Imports: 3,791 MT with a total value of USD 2,015,392
(Note: Of this, 3,171 MT were pig feet and pig tails. End note.)

Countries of Origin:
1,469 MT from the US
2,298 MT from Canada
24 MT from China

Processed Pork Imports: 2,919 MT with a total value of USD 6,719,000
(Note: Of these, luncheon meat comprised 2,022 MT for a value of USD 4.9 million. End note.)

Countries of origin:
1,456 MT from Denmark
662 MT from US
68 MT from Canada
733 MT from other countries

(Note: Panama did not/not export any pork products in 2003.
End note.)

21. Corn. Panama had a total of 50,248 corn farmers in 2003; of these, 540 were mechanized and 49,708 were non-mechanized. Mechanized farmers planted 10,000 hectares whereas non-mechanized farmers planted 58,230 hectares for a total of 68,230 hectares of corn planted in CY 2003. The following statistics refer to CY 2002.

Yellow corn imports: 286,291 MT with a total value of USD 35.6 million
Popcorn imports: 209 MT with a total value of USD 0.15 million
(Note: All imports (286,291 MT) went toward animal feed. End note.)

Consumption from local, mechanized farmers: 10,000 MT for human consumption
21,818 MT for animal feeds

Consumption from local, non-mechanized farmers: 454,627 MT for human consumption

(Note: All figures are for yellow corn. Consumption of white corn in not/not significant in Panama. End note.)

22. Potatoes. The following information refers to fresh potatoes for CY 2002.

Production: 16,719 MT

Imports: 1,064 MT with a total value of USD 355,281

Countries of origin:
388 MT from the US
271 MT from Holland
243 MT from Belgium
78 MT from Chile
77 MT from Canada
7 MT from Colombia

The following information refers to processed potato products for CY 2002.

Production: -0-

Imports: 5,805 MT with a total value of USD 4,360,364
(Note: Of this, 5,254 MT were french fries. End note.)

Countries of origin:
2,343 MT from the US
2,381 MT from Holland
1,056 MT from Canada
25 MT from other countries

(Note: While small, the potato industry continues to be protected by MIDA. Since December 2003, MIDA initially refused to grant import licenses for frozen french fries on two separate occasions. After Embassy intervention, the permits were issued. The Embassy also notes that the issuance of such permits for franchises serving frozen french fries has never been disrupted. The last Embassy intervention, negative press, and discussions between US and Panama at the WTO negotiating session on Food Aid in Geneva have prompted GOP officials and interested parties to seek a resolution to the problem. End note.)
MCMULLEN